REPORT OF

ASSOCIATION EXAMINATION

OF

UNIVERSAL LIFE INSURANCE COMPANY

BIRMINGHAM, ALABAMA

AS OF

DECEMBER 31, 2002

PARTICIPATION:

SOUTHEASTERN ZONE
ALABAMA

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STATE OF ALABAMA
COUNTY OF JEFFERSON

Rhonda B. Ball being first duly sworn, upon her oath deposes and says:

That she is an examiner appointed by the Commissioner of Insurance for the State of Alabama;

That an examination was made of the affairs and financial condition of Universal Life Insurance Company for the period of January 1, 2000 through December 31, 2002;

That the following 57 pages constitute the report thereon to the Commissioner of Insurance of the State of Alabama;

And, that the statements, exhibits, and data therein contained are true and correct to the best of her knowledge and belief.

Rhonda B Ball

Rhonda B. Ball
Examiner-in-charge

Subscribed and sworn to before the undersigned authority this 26th day of August, 2004.

Audrey Griffin
(Signature of Notary Public)

Audrey Griffin, Notary Public
Printed name

in and for the State of Alabama

My commission expires 11\2\05

STATE OF ALABAMA
DEPARTMENT OF INSURANCE
201 MONROE STREET, SUITE 1700
POST OFFICE BOX 303351
MONTGOMERY, ALABAMA 36130-3351
TELEPHONE: (334) 269-3550
FACSIMILE: (334) 241-4192
INTERNET: www.aldoi.org

BOB RILEY
GOVERNOR

WALTER A BELL
COMMISSIONER

DEPUTY COMMISSIONER
JAMES R. (JOHNNY) JOHNSON
D DAVID PARSONS

CHIEF EXAMINER
RICHARD L. FORD

ACTING STATE FIRE MARSHAL
RICHARD MONTGOMERY

GENERAL COUNSEL
MICHAEL A. BOWNES

RECEIVER
DENISE B. AZAR

PRODUCER LICENSING MANAGER
JIMMY W. GUNN

Birmingham, Alabama
August 19, 2004

Honorable Jose Montemayor
Chairman, Examination Oversight Committee
Texas Department of Insurance
PO Box 149104
Austin, Texas 78714-9104

Secretary, Northeastern Zone
Honorable Diane Koken
Commissioner
Pennsylvania Insurance Department
1326 Strawberry Square
Harrisburg, Pennsylvania 17120

Secretary, Southeastern Zone
Honorable John Oxendine
Georgia Department of Insurance
2 Martin Luther King, Jr. Drive
Floyd Memorial Bldg., 704 West Tower
Atlanta, Georgia 30334

Secretary, Midwestern Zone
Honorable Sally McCarty
Insurance Commissioner
311 West Washington Street,
Suites 103 & 300
Indianapolis, Indiana 46204-2787

Secretary, Western Zone
Honorable John Morrison
Montana Department of Insurance
840 Helena Avenue
Helena, Montana 59601

Honorable Walter A. Bell
Commissioner of Insurance
State of Alabama Department of Insurance
P. O. Box 303351
Montgomery, Alabama 36130-3351

Dear Commissioners:

Pursuant to your instructions and in compliance with the statutory requirements of the State of Alabama and the resolutions of the National Association of Insurance Commissioners, an examination as of December 31, 2002, has been made of the affairs, financial condition, and market conduct of **Universal Life Insurance Company** at its home office located at 2300 11th Avenue North, Birmingham, Alabama 35234. The report of examination is submitted herewith.

Where the description "Company" appears herein, without qualification, it will be understood to indicate **Universal Life Insurance Company**.

SCOPE OF EXAMINATION

The Company was last examined for the three-year period ended December 31, 1999 by examiners from the State of Tennessee. The Company was redomesticated from the State of Tennessee to the State of Alabama on July 12, 2002. The current examination covers the intervening period from the date of the last examination through December 31, 2002 and was conducted by examiners from Alabama, representing the Southeastern Zone, NAIC. Where deemed appropriate, transactions subsequent to December 31, 2002, were reviewed.

The examination was made in accordance with the statutory requirements of the Alabama Insurance Code and the Alabama Insurance Department's regulations and bulletins; in accordance with the applicable guidelines and procedures promulgated by the NAIC; and in accordance with generally accepted examination standards.

This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of Universal Life Insurance Company. Furthermore, due to the Company's inability or unwillingness to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. See "QUALIFICATION OF EXAMINATION REPORT" for detailed discussion on Page 24.

The discussion of assets and liabilities contained in this report has been confined to those items which indicated a violation of the Alabama Insurance Code, the Insurance Department's rules and regulations, or which were deemed to require comments and/or recommendations.

A signed certificate of representation was obtained during the course of the examination. In this certificate, management attested to having valid title to all assets and to the nonexistence of unrecorded liabilities as of December 31, 2002. A signed letter of representation was also obtained at the conclusion of the examination whereby management represented that, through the date of this examination report, complete disclosure was made to the examiners regarding asset and liability valuation, financial position of the Company, and contingent liabilities.

A market conduct examination was performed concurrently with the financial examination. The market conduct examination included a review of the Company's operations/management, complaint handling, marketing and sales, producer licensing, policyholder service, policy forms, rating and underwriting practices, privacy issues, and claims. See page 10 for further discussion of the market conduct examination.

Certain required elements relating to these areas of examination will be included in this report. However, where no exceptions were noted in particular areas, details of the various tests conducted are not included in this report. If exceptions were identified as part of this examination, the details of the exceptions, the related tests, and recommendations are included in the appropriate sections of this Report of Examination.

ORGANIZATION AND HISTORY

The information contained in this section of the examination report was excerpted from prior examination reports and updated as appropriate.

The Company was organized and incorporated under the statutes of the State of Tennessee on March 16, 1923. It commenced business in the same year, operating as a capital stock legal reserve life insurance company. The original authorized capital of the Company was $100,000 and consisted of 1,000 shares of common stock with a par value of $100 each. Several amendments to the Charter have had the effect of increasing the total authorized stock to 100,000 shares and reducing the par value to $16.00 per share. The total outstanding, at December 31, 2002, was 65,884.

Since inception, the Company has been a party to the following mergers, acquisitions and reinsurance transactions:

- In 1926, the Company reinsured Arkansas, Mississippi and Texas industrial business of the Mississippi Life Insurance Company, which had previously been reinsured by the Southern Insurance Company of Nashville, Tennessee.
- In 1926, the business of the Great Southern Mutual Insurance Company of Little Rock, Arkansas was reinsured.
- In August 1941, the Company reinsured the business of the Old Faithful Life Insurance Company of Longview, Texas under a Reinsurance Agreement approved by the Insurance Departments of Tennessee and Texas.
- In 1948, the Company purchased the business of the Peoples Life and Accident Insurance Company of Dallas, Texas.

- In 1961, the Company merged the business, assets and liabilities of the Louisiana Life Insurance Company in accordance with an agreement and plan of merger recorded January 2, 1961, and filed in the Parish of Orleans.

- During 1965, the Company purchased all of the outstanding capital stock of the Richmond Beneficial Life Insurance Company of Richmond, Virginia, and merged the business, assets and liabilities.

- In 1976, the Company purchased the Texas ordinary and industrial business of Afro-American Life Insurance Company of Florida.

- On September 10, 1980, the Company merged with Union Protective Life Insurance Company.

- On January 12, 1987, "Articles of Merger" between the Company and Security Life Insurance Company of the South were executed after having been approved by the Insurance Departments of the States of Mississippi and Tennessee.

- Effective January 1, 1992, the Company purportedly purchased all of the business of Freedom National Insurance Company of Little Rock, Arkansas per a "Reinsurance Agreement." The Company stated this acquisition had been approved by the State of Arkansas, but a copy of the Order could not be provided. The State of Tennessee was not notified regarding this acquisition.

- Effective January 1, 1998, the Company entered into a coinsurance agreement with American Capitol of Houston, TX whereby American Capitol coinsured all of the Company's life insurance in force written before December 31, 1997. As provided for in the agreement, American Capitol elected to convert the agreement from a coinsurance agreement to a portfolio assumption effective November 1, 1999. See "Reinsurance" on page 15 for further discussion.

- The Company was purchased by Protective Industrial Insurance Company of Alabama on September 22, 2000. On July 12, 2002, the Company redomesticated from the State of Tennessee to the State of Alabama.

MANAGEMENT AND CONTROL

Stockholders

The Company was a stock corporation with ultimate control vested in its stockholder. Protective Industrial Insurance Company of Alabama owns 100% of the capital stock of the Company. There were 65,884 shares of outstanding stock at December 31, 2002.

Board of Directors

The members elected to the Board of Directors upon attaining control of the Company and serving at December 31, 2002, were as follows:

Julian Mason Davis, Jr.
James Carl Harrison
John Henry McCain
William Rivers Trammell
Laura Partee Sterling

Officers

The following officers were elected by the Board of Directors and were serving at December 31, 2002.

James C. Harrison	President/CEO
Harold L. Washington	Senior Vice President/Chief Financial Officer
Carol Mitchell	Vice President/Insurance Operations
John McCain	Vice President/Treasurer
Alberta Crumb	Vice President/Corporate Secretary
Jesse Purifoy	Vice President/Chief Marketing Officer

Committees

There were no committees during the examination period.

Conflict of Interest

None of the employees, directors or officers signed a conflict of interest statement during the examination period. This was contradictory to the Company's answer to general interrogatory number 13 in its 2002 Annual Statement, which asks the following "Has the reporting entity an established procedure for disclosure to its board of directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees which is in or is likely to conflict with the official duties of such person?"

CORPORATE RECORDS

The Bylaws and Articles of Incorporation were reviewed for the period of examination. These were amended on March 15, 2002. The Articles of Incorporation and Bylaws were not reported as amended in question 2.1 of the Company's General Interrogatories. The NAIC Annual Statement Instructions states to list if any changes had been made during the year to the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity.

The following inconsistencies were noted.

Article IV Section I of the Company's By Laws stipulates that an annual meeting of the stockholders of the Company shall occur on the or before the first Wednesday in March of each year and shall be held at the office of the Company in the City of Memphis, State of Tennessee. The Company's home office has been located in Alabama since the acquisition in 2000. The stockholders did not hold an annual meeting on or before the first Wednesday in March for 2001 or 2002 nor did it hold a meeting in Memphis, Tennessee. Article V Section IV stipulates a regular meeting of the Board shall be held every six months beginning immediately after the annual stockholders meeting. The Company's Board did not meet every six months in accordance with this article and section.

HOLDING COMPANY AND AFFILIATE MATTERS

Holding Company Matters

The Company was subject to the Alabama Insurance Holding Company Regulatory Act as defined in ALA. CODE § 27-29-1 (1975). Appropriate filings required under the Holding Company Act were made by the Company's parent, Protective Industrial Insurance Company.

Organizational Chart

The following presents the identities of all interrelationships among all affiliated persons within the Insurance Holding Company System as of December 31, 2002:

Protective Industrial Insurance Company of Alabama
owns the following:

Universal Life Insurance Company	100%
Davenport & Harris Funeral Home, Inc.	76.36%
PIICO Insurance Agency, Inc.	100%

Transactions and Agreements with Affiliates

Management Agreement with Protective Industrial Insurance Company

The agreement is between Protective Industrial Insurance Company, PIICO, and the Company (Universal Life Insurance Company). The effective date of the agreement was September 28, 2000 and is renewable annually for periods of one year unless written notice is given by either party at least three months in advance of the end of the fiscal year. This agreement was approved by the Alabama Department of Insurance.

PIICO shall provide management services and determine and control the overall operations of the Company under policies approved by the Company's board of directors. PIICO shall provide the following services:

a. Establishing management policies and operating procedures with respect to its insurance business;
b. Guidance of management in all employee relations, including the securing of employee fringe benefit programs;
c. Selection and training of all key management personnel;
d. Personnel supervision and training;
e. Operation, supervision and directions through PIICO of those activities fully described in subparagraph (a) hereof;
f. Supervision and control of accounting practices, bookkeeping and computer operations;
g. Selection of qualified professionals, including auditors, accountants, attorneys and salesmen;
h. Selection of internal auditors and accountants and directions of their activities;

i. Direction and control over all financing, including capital investments and other expenditures;
j. Service the needs of the Company's insureds.

For these services, the Company shall pay PIICO $75,000 on or before the first day of each month the agreement is in effect. The Company paid a total of $900,000 to its parent, Protective Industrial Insurance Company, in 2002, which was the monthly fee of $75,000 times twelve months; however, it did not always pay the $75,000 on or before the first day of each month in accordance with contract provisions.

The Company will furnish PIICO with suitable office space, utilities and other necessary services and will reimburse PIICO for all necessary administrative, office, travel, entertainment, advertising and professional expenditures as may be required in the performance of its duties and responsibilities under the Agreement. PIICO shall maintain at its principal office, for the duration of this agreement and for five years thereafter, adequate books and records of all transactions between the Company and PIICO and the Company's insureds and shall safeguard all such information in confidence to the same extent that PIICO safeguards comparable information relating to its own business.

The Company did not furnish PIICO with suitable office space in accordance with the agreement. PIICO's home office was utilized for office space with the Company paying rent as part of these services.

FIDELITY BOND AND OTHER INSURANCE

The Company did not obtain fidelity bond insurance in accordance with NAIC Financial Examiners Handbook, which contains a calculation that specifies the minimum amount of coverage to be maintained.

The Company maintained fire coverage on all real estate owned with the exception of two of its properties. The coverages for the Company's other properties were reviewed during the course of the examination and appeared to adequately protect the Company's real estate. For further discussion see "Note 3- Real estate: Real Estate - Properties held for the production of income and Properties held for sale" on page X. It was noted that the Company does not have any other insurance that covers it from hazards to which it is exposed.

EMPLOYEE AND AGENTS WELFARE

All individuals who performed administrative and operational functions for the Company were employees of Protective Industrial Insurance Company, Inc., the Company's parent. These employees were offered the following benefits:

Personal Vacation Days
Holidays
Sick Days
Family and Medical Leave
Health and Dental Plans
Profit Sharing Plan
401 (K) Plan

SPECIAL DEPOSITS

At December 31, 2002, as required or permitted by law, the Company maintained deposits with the respective statutory authorities as follows:

State	Par Value	Statement Value	Market Value
Alabama	$ 437,000	$ 435,609	$ 435,609
Arkansas	200,000	200,728	211,301
Louisiana	45,000	45,080	49,838
Tennessee	1,075,000	1,083,619	1,166,070
Virginia	250,000	249,435	250,781
TOTALS	$2,007,000	$2,014,471	$2,113,599

FINANCIAL CONDITION/GROWTH OF THE COMPANY

The following table sets forth the significant items indicating the growth and financial condition of the Company for the period under review:

Year	Gross Premiums Written	Admitted Assets	Liabilities	Capital and Surplus
1999**	1,831,934	6,155,140	4,979,939	1,175,201
2000	1,653,176	8,495,176	3,015,427	3,217,035
2001	1,299,918	7,519,020	2,632,097	5,479,749
2002	698,467	7,664,663	3,393,978	4,884,938

** = Per Examination

All other amounts came from the Company's filed Annual Statements.

MARKET CONDUCT ACTIVITIES

Territory

The Company was licensed to write business, as of the examination date, in the following states: Alabama, Arkansas, District of Columbia, Kansas, Louisiana, Mississippi, Missouri, Oklahoma, Tennessee, and Texas; however, the Company discontinued writing any new business in all states effective July 9, 1999. The certificates of authority for the respective states were inspected, and a certificate was located for each state for the years under examination.

The following schedule exhibits the number and amount of life insurance in force at December 31, 2002 in the states in which the Company was licensed.

	Ordinary Life		Industrial Life		
State	Certificates	In-Force	Certificates	In-Force	Total
AR	1,166	$ 955,000	28	$ 2	$ 955,002
CA*	51	301,000	14	3	301,003
DC	0	0	2	1,000	1,000
KS	9	10	6	1,000	1,010
LA	744	4,540,000	866	97,000	4,637,000
MS	325	1,282,000	37	5,000	1,287,000
MO	780	1,667,000	3,071	2,529,000	4,196,000
OK	24	60,000	0	0	60,000
TN	949	4,599,000	84	34,000	4,633,000
TX	500	2,568,000	968	189,000	2,757,000
VA**	2,134	6,023,000	10,608	9,329,000	15,352,000
Total In force	6,682	$21,995,010	15,684	$12,185,005	$34,180,015

The above amounts are from the state pages of the Company's 2002 Annual Statement.

In the Company's 2002 Annual Statement- Schedule T, the Company reported $533,442 in direct premiums for accident and health insurance; however, in the Exhibit of Number of Policies in Force for Accident & Health Policies (page 32 of the Company's 2002 Annual Statement) the Company reported NONE.

*The Company was not licensed in California; however, the Company reported in its 2002 Schedule T-life premiums for this state. The Company did not comply with the standards of the NAIC Annual Statement Instructions by providing an explanation for the California renewal premiums in its 2002 Annual Statement for the basis of allocation by states, which requires the Company to "explain in detail the method or methods utilized to allocate all individual and group insurance premiums, annuity considerations and annuity and other fund deposits to state. This explanation should be detailed enough so that state allocation methods are determinable for every type of business. Likewise, references to "resident" or "billing address" must be explained."

**The Company did not provide a Certificate of Authority for Virginia and reported in its 2002 Annual Statement Schedule T that it was licensed in this state, which was not in accordance with the NAIC Annual Statement Instructions. The Company voluntarily withdrew its license from the Commonwealth of Virginia on October 31, 1995 because it did not maintain the minimum surplus requirements.

The Company did not complete its Schedule T in accordance with the NAIC Annual Statement Instructions. The schedule is "intended to exhibit the amount of premium and annuity considerations, and deposit-type contracts allocated to each state."

Plan of Operation

At December 31, 2002, there were no agents employed or licensed by the Company, and it has not written any business since 1999. The Company continues to service its existing business written prior to 1999, which consists of the following: whole life, limited pay life, term life, level term, decreasing term - mortgage redemption, graded death benefit, health plans, and hospitalization policies.

Policy forms and Underwriting

There were no policy form filings during the examination period. The Company has not written business since 1999. In 2002, the Company elected to non-renew its Hospital and Surgical Expense policy. This type of policy had a provision, in bold print on the front of the contract, which stated that this type of policy is renewable at the option of the Company. Historically, the Company has not changed any nonguaranteed factors except the decision to non-renew its Hospital and Surgical expense policy contracts.

Marketing and Sales

At December 31, 2002, there were no agents employed or licensed by the Company, and it has not written any business since 1999.

Claims Payment Practices

The examiners reviewed a sample of fifty paid accident and health claim files and fifty paid life claim files. These files were reviewed to determine turnaround times on claims and were selected using the listings of claims paid in 2002. The examiners were able to verify dates of receipt and payment or response on the majority of the claims. Timeliness of response by either payment of the claim or notification of nonpayment to the claimant was studied. Adequacy of documentation was also reviewed. The following was noted during the review of these items:

At December 31, 2002, the Company had eighteen clean written hospital claims and one clean written life claim that were paid over forty-five days from the date the claim was received. It was further noted that there were claims that the Company had not notified the health care provider or certificate holder of the reason for pending the claim within forty-five days of receiving such claim. ALA. CODE § 27-1-17(a) (1975) states "Each insurer...that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim.." also "... the insurer...shall within 45 calendar days for a written claim...notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim."

The Company was unable to provide four 2002 paid life claim files out of a sample of fifty during the examination. Per Alabama Department of Insurance Regulation No. 118, "All records must be maintained for not less than five (5) years."

During the review of paid life and accident and health claim files, it was noted that the files were not adequately documented to support or justify the ultimate claim determination. ALA. CODE § 27-27-29 (1975) states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Claims Handling Practices

Fifty application files for a sample of paid life claims were requested on July 14, 2004. These files were requested to determine if the correct beneficiary was paid, whether the Company had misrepresented relevant facts or policy provisions relating to coverages at issue, if claim files were handled according to policy provisions, and if a claim was settled on the basis of an application that was materially altered without the consent of the insured. Twenty-five of the application files were provided on July 21, 2004. The Company however did not provide the other twenty-five application files, which contributed to the qualification of this report and was not in accordance with ALA. CODE § 27-27-29 (1975) (noted above) and Alabama Department of Insurance Regulation No. 118 Section 3. According to this regulation, "All records must be maintained for not less than five (5) years."

The twenty-five application files provided were not reviewed by the examiner.

Policyholder Complaints

During the review of complaints, it was noted that the Company was unable to provide a complaint register for 2000 and 2001. The Company is required to maintain a complaint register in accordance with the guidelines established in Chapter XV, Section B (Complaint Handling) of the NAIC Market Conduct Examiners Handbook and ALA. CODE § 27-27-29 (a) (1975), which states the following:

> "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

During the examination period, the Alabama Department of Insurance received the following complaints:

2000	0
2001	0
2002	2

The two complaints listed in the Company's complaint register were the same as those registered with the Alabama Department of Insurance (ALDOI). A review of these complaints revealed the Company responded and resolved the complaints received.

There were no complaint trends noticed during this review that would indicate any significant problems.

Policyholder Service

The Company could not provide the detail of its cancelled/non-renewed policies that reconciled with its 2000 through 2002 Exhibit of Life Insurance. According to the Company, these amounts were arbitrarily determined, which was not in accordance with ALA. CODE § 27-27-29 (a) (1975). This statute states that "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs..." The Company did not complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions. Therefore, the examiners were unable to select a sample of these policies to determine if these policies were cancelled in accordance with policy provisions. This contributed to the qualification of the examination report.

During the review of reinstatement notices, the examiner was unable to determine that these notices were sent out in a timely manner because the Company did not maintain in its underwriting file documentation of reinstatement notices sent to policyholders in accordance with ALA. CODE § 27-27-29 (a) (1975).

During the review of matured endowments, the examiner was unable to determine whether these matured endowments were processed when due because the Company could not provide documentation of the notification that is sent to policyholders in each applicable policyholder's file in accordance with ALA. CODE § 27-27-29 (a) (1975).

During the review of a sample of returned premiums for policies that had a death claim, the examiner was unable to verify that thirteen out of fifty policies with returned premiums were refunded in a timely manner because the date received was not included in the claims paid data set.

During the review of unclaimed property funds, the examiner noted that the Company did not maintain documentation of attempts to locate beneficiaries and recipients of unclaimed funds in accordance with ALA. CODE § 27-27-29 (a) (1975).

The Company did not comply with the prior examination report. It was recommended for the Company's accident and sickness disability policies that the contractual provision be enforced under these products and disability/sickness benefits be terminated when the policyholder reaches the stated termination age.

Compliance with ALA. ADMIN. CODE 482-1-122

The Company did not share customers' personal information with any nonaffiliated third parties. Any information the Company disclosed to any third parties was for the purpose of conducting day-to-day business functions such as the payment of claims.

The Company did provide notices to its customers that indicated the types of information it collected, the way it was used, and the manner of collection. The notices also informed the customers that the Company did not disclose information to nonaffiliated third parties unless permitted to do so by law.

REINSURANCE

The Company had no assumed reinsurance at December 31, 2002.

Universal Life Insurance Company entered into a coinsurance agreement in 1997 with American Capitol Insurance Company (ACAP). Coinsured policies included both ordinary and industrial policies, paid-up, premium paying policies, and policies with loans. The Company's "combination policies," which had a life and an accident and health benefit, were not covered by the agreement nor were any of its accident and health policies. The policies coinsured with ACAP were eventually assumed by ACAP with the exception of business from Virginia and Missouri. These two states did not approve the assumption, as the policyholders in these states would have to approve the assumption; therefore, ACAP was administering and continued coinsuring the business from these states. The Company's retained liability was $50,000 with a maximum policy written by the Company and reinsured by ACAP of $100,000.

The Company did not comply with the NAIC Accounting Practices and Procedures Manual, SSAP No. 61, paragraphs 57, 60 and 62 and the NAIC Annual Statement Instructions by disclosing the required reinsurance information in the Company's 2002 Notes to the Financial Statement.

ACCOUNTS AND RECORDS

The Company's accounting records are maintained primarily on electronic data processing equipment, with certain records maintained manually.

The Company is audited annually by the certified public accounting firm of Banks, Finley, White & Company. The 2002 audit work papers were not completed until after the opinion, due on June 1, 2003, was issued and therefore were not available for review at the commencement of this examination. It was also noted that the examiners were delayed in reviewing the 2000 and 2001 CPA work papers. According to the NAIC Annual Statement Instructions, "Workpapers are the records kept by the independent certified public accountant of the procedures followed, the tests performed, the information obtained, and the conclusions reached pertinent to this examination of the financial statements of an insurer" and shall support his/her opinion thereof. Also, "Every insurer required to file an audited financial report pursuant to this instruction shall require the accountant to make available for review by domiciliary Department examiners all workpapers prepared in the conduct of his/her examination..." The audit reports and audit work papers of said CPA firm were eventually made available to the examiners and were utilized in the examination, where deemed appropriate.

The examiners noted the following weaknesses during the review of the Company's Evaluation of Controls In Information Systems Questionnaire: that physical access to the computer room is not restricted to operations personnel; there is not a control that prevents the corruption of databases; and, there are no procedures that provide for prompt cancellation of identification codes and passwords when the employment of the individual to whom they were assigned has been terminated.

The Company transacts certain business over the internet; however, the Company did not maintain evidence that these transactions were secure. It should be determined if these transactions are secure, and supporting documentation should be maintained to evidence that these transactions are secure.

The Company did not have monitoring procedures, a system or an intrusion detection policy in place in order to detect unauthorized access to its data processing system, therefore, putting its system at risk.

The Company's disaster recovery plan became effective May 2000. It appeared to contain all the needed elements; however, no evidence was provided to show that it had been tested. This plan should be tested in order to determine its effectiveness in accordance with ALA. CODE § 27-27-29 (a) (1975), which states the following:

> "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted".

The Company's general ledger balance of its net investment income and premium and annuity considerations did not reconcile with the amount that it reported in the 2002 Summary of Operations.

The Company's management did not maintain reconciliations of their general ledger accounts that reconciled to its Annual Statements.

The Company did not maintain all detailed data sets supporting the information contained in the filed Annual Statement. See the "Notes to Financial Statements" and "Qualification of Examination Report" for additional accounts and records problems noted.

The Company did not complete its Five-Year Historical Data Schedule on page 27 of the 2002 Annual Statement in its entirety. However, during the course of the examination, the Company filed a revised Five-Year Historical Data Schedule with the NAIC and the Alabama Department of Insurance.

The Company did not provide an explanation in its 2002 Annual Statement- Schedule T for the basis of allocation by states, etc., of premiums and annuity consideration and annuity and other fund deposits in accordance with the NAIC Annual Statement Instructions, which requires the following:

> "Explain in detail the method or methods utilized to allocate all individual and group insurance premiums, annuity considerations and annuity and other fund deposits to state. If more than one method is employed for group cases, dependent upon the number of lives involved (or other appropriate factor), be sure to state all bases and clearly differentiate between them. This explanation should be detailed enough so that state allocation methods are determinable for every type of business. References to "rules" of allocation are not acceptable without complete definition of the operation of such "rules". Any variations in "rules" or other method, regardless of how minor they may be, must be disclosed. For group business, references to "policyholder," "contract holder," "insured" or words of similar import which are intended to be utilized as a basis for premium allocation must be defined. *Likewise, references to "resident" or "billing address" must be explained.*"

The Company had no written computer security procedures. The Company must establish and maintain appropriate controls, safeguards and written procedures for protecting the integrity of computer information in accordance with ALA. CODE § 27-27-29 (a) (1975).

FINANCIAL STATEMENTS INDEX

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements. **This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of the Company. Furthermore, due to the Company's inability to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent.** The statements are presented in the following order.

Universal Life Insurance Company
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
for the Year Ended December 31, 2002

Assets	Ledger Assets	Nonadmitted Assets	Net Admitted Assets
Bonds (Note 1)	$4,463,484		$4,463,484
Preferred Stocks	4,500		4,500
Common Stocks (Note 1)	196,157		196,157
Mortgage loans on real estate – first liens (Note 2)	1,995,009		1,995,009
Real Estate – properties held for the production of income (Note 3)	150,102		150,102
Real Estate – properties held for sale (Note 3)	193,627	96,847	96,780
Policy loans (Note 4)	254,156	253,565	591
Cash ($146,271) and short- term investments ($154,647) (Note 5)	300,918		300,918
Aggregate write-ins for invested assets (Note 6)	17,493		17,493
Electronic data processing equipment and software	163,695	163,695	0
Guaranty funds receivable or on deposit	207,942		207,942
Life insurance premiums and annuity considerations deferred and uncollected on inforce business (less premiums on reinsurance ceded and less $124,063 loading) (Note 7)	119,837		119,837
Accident and health premiums due and unpaid	9,490		9,490
Investment income due and accrued (Note 2)	102,360		102,360
TOTAL ASSETS	$8,178,770	$514,107	$7,664,663

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements.

Universal Life Insurance Company
STATEMENT OF ASSETS, LIABILITIES, SURPLUS AND OTHER FUNDS
for the Year Ended December 31, 2002

LIABILITIES, SURPLUS AND OTHER FUNDS:		
Liabilities:		
Aggregate reserve of life contracts (Note 8)		$2,200,591
Aggregate reserve for accident and health contracts		29,929
Contract claims – Life (Note 9)		30,000
Contract claims – Accident and health (Note 10)		17,500
Premiums and annuity considerations for life and accident and health contracts received in advance		5,294
General expenses due or accrued (Note 11)		0
Taxes, licenses and fees due or accrued (Note 11)		0
Amounts withheld or retained by company as agent or trustee (Note 11)		55,991
Amounts held for agents' account (Note 12)		8,690
Asset Valuation Reserve (Notes 13)		36,337
Aggregate write-ins for liabilities (Note 14)		242,218
Total Liabilities		$2,626,550
SURPLUS AND OTHER FUNDS		
Common capital stock (Note 15)	$1,054,144	
Gross paid in and contributed surplus (Note 15)	2,351,434	
Aggregate write-ins for special surplus funds (Note 15)	200,000	
Unassigned Funds (Note 16)	1,432,535	
Total Surplus and other funds		$5,038,113
Total Liabilities, Surplus and Other Funds		$7,664,663

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements.

Universal Life Insurance Company
SUMMARY OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001, AND 2002

Income	2000	2001	2002
Premiums and annuity considerations	$1,653,176	$1,299,918	$ 698,467
Considerations for supplementary contracts without life contingencies	32		
Net investment income	156,794	220,419	200,486
Amortization of Interest Maintenance Reserve	(143,052)	(154,960)	(165,747)
Miscellaneous income	3,668,563	78,044	12,061
Total income	$5,335,503	$1,443,421	$ 745,267
Deductions			
Death benefits	156,784	332,947	434,860
Matured endowments	17,546	14,374	
Disability benefits and benefits under accident and health policies	148,709	449,273	499,548
Surrender benefits and other fund withdrawals for life contracts	78,106	50,125	52,296
Increase in aggregate reserves for life and accident and health contracts	334,087	(275,128)	(150,324)
General insurance expenses	1,309,676	1,234,286	970,878
Insurance taxes, licenses and fees, excluding federal income taxes	504,171	43,272	85,685
Increase in loading on deferred and uncollected premiums	11,630	31,448	(88,164)
Total deductions	$2,767,050	$1,880,597	$ 1,804,779
Net gain from operations before dividends to policyholders and federal income taxes	2,568,453	(437,176)	(1,059,511)
Dividends to policyholders	0	0	0
Net gain from operations after dividends to policyholder and federal income taxes	$2,568,453	$(437,176)	$(1,059,511)
Federal income taxes incurred	0	0	0
Net gain from operations after dividends to policyholders and federal income taxes and before realized capital gains or (losses)	$2,568,453	$(437,176)	$(1,059,511)
Net realized capital gains or (losses) less capital gain tax	(41,610)	(7,331)	1,004,802
Net Income	$2,526,843	$(444,507)	$ (54,709)

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements.

Universal Life Insurance Company
CAPITAL AND SURPLUS ACCOUNT
FOR THE YEARS ENDED DECEMBER 31, 2000, 2001, AND 2002

	2000	2001	2002
Capital and surplus December 31, previous year	$3,271,035	$5,479,749	$4,884,938
Gains and (Losses) in Surplus			
Net income	$2,332,170	$ (444,507)	$ (54,709)
Change in net unrealized capital gains (losses)	(4,403)	(185,040)	53,631
Change in non admitted assets and related items	600,051	35,653	84,868
Change in asset valuation reserve	270,874	1,068	69,386
Aggregate write-ins for gains and losses in surplus	(935,978)	0	0
Net change in capital and surplus for the year	$2,262,714	$ (592,826)	$ 153,176
Capital and surplus December 31, current year	$5,479,749	$4,886,923	$5,038,114

The Financial Statements included in this report are the amounts reported by the Company for the period under examination and were compiled from the Company's copies of filed Annual Statements.

QUALIFICATION OF EXAMINATION REPORT

The following information was requested and was never provided by the Company:

- 2002 Cash receipts journal- originally requested on June 16, 2003;
- twenty-five application files for market conduct claims were requested on July 14, 2004;
- 2002 Reconciliation of the cash receipts journal and cash disbursements journal to the general ledger- originally requested on May 20, 2004;
- the detail of interest collected and earned during 2002 and the method used to determine the interest income amounts- originally requested on May 25, 2004;
- Risk based capital- cross check letter- originally requested on November 17, 2003;
- 2002 cash disbursements journal-originally requested on June 16, 2003;
- 2003 legal invoices- originally requested on February 2, 2004; and,
- The following, which was originally requested on July 9, 2004:
  a. The Company has lost approximately $600,000 each year in surplus in 2001 and 2002. Capital and Surplus at year-end 2002 was only $4.3 million. How is the Company addressing this?
  b. Detail for the Aggregate write-ins for special surplus funds at December 31, 2002 that reconciles with the balance sheet and general ledger and why it as classified here;
  c. Detail supporting the gross paid-in and contributed surplus amount at December 31, 2002 that reconciles with the general ledger and the annual statement;
  d. The stock ledger that reconciles with the general ledger.

The Company was not in compliance with the Alabama Department of Insurance Regulation No. 118, Section 6, which states, "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the non-production shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay."

The Company was also not in compliance with ALA. CODE § 27-2-23 (b) (1975), which states, "Every person being examined, its officers, attorneys, employees, agents and representatives, shall make freely available to the commissioner or his examiners the accounts, records, documents, files, information, assets and matters in his possession or control relating to the subject of the examination."

Within three samples of forty-seven policies (141 items), the examiners noted the following discrepancies regarding the Company's in force valuation record at December 31, 2002. The Company had two policies, which it could not provide an explanation detailing why these were not on the in force valuation record at December 31, 2002. Fourteen burial policies were also not included on the valuation record – see "Aggregate reserve for life contracts" on page 37 for commentary on these discrepancies.

Other items that the Company was unable to provide and contributed to the qualification of this report were as follows:

- Four 2002 paid life claim files of a sample of fifty;
- Detail for its cancelled/non-renewed policies that reconciled with its 2000 through 2002 Exhibit of Life Insurance;
- The 2002 detail of each mortgagor's escrow account;
- Evidence of insurance for two of its properties at December 31, 2002;
- Twenty-two of forty-seven policy application files;
- Explanations why two policies were not on the valuation record at December 31, 2002;
- Invoices for a sample of 2003 disbursements;
- Eight brokers advices or purchase slips for securities; and,
- Documentation supporting the portfolio beta factor utilized for its common stock in the Asset Valuation Reserve calculation.

ITEMS NOT REVIEWED

Fifty application files for a sampled of paid life claims were requested on July 14, 2004. These files were requested to determine if the correct beneficiary was paid, whether the company has misrepresented relevant facts or policy provisions relating to coverages at issue, if claim files are handled according to policy provisions, and if a claim was settled on the basis of an application that was materially altered without the consent of the insured. Twenty-five of the application files were provided on July 21, 2004. The Company however did not provide the other twenty-five application files, which contributed to the qualification of this report and was not in accordance with ALA. CODE § 27-27-29 (a) (1975) and Alabama Department of Insurance Regulation

No. 118 Section 3 that states "All records must be maintained for not less than five (5) years." The application files provided were not reviewed by the examiners.

During the review of a sample of returned premiums for policies that had a death claim, the examiner was unable to verify that thirteen out of fifty policies with returned premiums were refunded in a timely manner because the date received was not included in the claims paid data set.

NOTES TO FINANCIAL STATEMENTS

Note 1- Bonds	$4,463,484
Common stocks	$ 196,157

The captioned amounts are the same as reported by the Company in its 2002 Annual Statement.

It was noted that the Company did not post payments to its investment package, which overstated the par value of two bonds at December 31, 2002.

31393KLC8 Fed Home Loan MTG Corp Series

Par Value per the Company's 2002 Annual Statement	Par Value per the Confirmation	Difference
$25,764	**$24,695**	**$1,069**

The book value per the 2002 Annual Statement and confirmation was $26,191 and $25,104, respectively. This resulted in a difference of $1,087, which was deemed immaterial. Per the Company's Controller, principal payments of $304 and $766 were made on August 15, 2002 and September 16, 2002, respectively, and were not posted in the investment package.

CUSIP # 36210YRS6 GNMA/VA Pool # 506397

Par Value per the Company's 2002 Annual Statement	Par Value per the Confirmation	Difference
$147,825	**$145,097**	**$2,728**

The book value per the 2002 Annual Statement and confirmation was $152,356 and $149,571, respectively. This resulted in a difference of $2,785, which was deemed immaterial. Per the Company's Controller, there was a principal payment of $2,728 that posted to the investment account on September 16, 2002 and the payment was omitted from the investment software program by mistake.

The total difference in the par values and the book values noted above were $3,797 and $3,872, respectively, for the two bonds. Due to the amounts being deemed immaterial, there were no changes made to the financials contained within this report.

The Company did not state the option date in column 7 and option call price in column 8 for its callable bond in accordance with the NAIC Accounting Practices and Procedures Manual in Schedule D- Part 1.

The Company did not report the par or book value in column 5, statement value in column 6 or the fair value in column 7 for seven of its securities listed on Schedule E - Part 2, which is not in compliance with the NAIC Annual Statement Instructions. It was also determined that the Company did not list all of its stocks held for Tennessee in its 2002 Schedule E - Part 2 in accordance with the NAIC Annual Statement Instructions.

The Company reported the incorrect NAIC designation for one of its bonds in Schedule D- Part 1, which was not in compliance with the NAIC Securities Valuation Office Purposes and Procedures Manual and the NAIC Annual Statement Instructions. The Company reported the bond to have a designation of 1 and the 4th Quarter 2002 NAIC Securities Valuation Office CD reported it to have a designation of 2. This did not affect the valuation of the investment; therefore, no changes were made to the 2002 financial statement.

The Company did not have investment minutes or reports documenting where the board of directors approved its investment transactions or the use of its investment manager, which was not in compliance with ALA. CODE § 27-41-5 (1975), which states:

"An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorized. The action of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors."

The examiner selected a random sample of forty-seven purchases and sales of securities to trace the disposal date or the acquired date from the Company's Annual Statement to the brokers' advices. Of the forty-seven selected, the Company could not provide seven brokers' advices, which was not in compliance with ALA. CODE § 27-27-29(a) (1975), which states that "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such records and methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted." The Company provided the other forty brokers' advices; however, it was determined that the Company recorded the transactions on the settlement date instead of the trade date, which is not in compliance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 26, paragraph 4 for bonds and SSAP No. 30, paragraph 5 for common stocks.

The Company was not in compliance with NAIC Accounting Practices and Procedures Manual SSAP No. 43, paragraph 9-14 because the Company did not determine prepayment assumptions for its loan-backed securities and review the results periodically.

Note 2- Mortgage Loans	**$1,995,009**
Investment income due and accrued	**$ 102,360**

The captioned amounts are the same as reported in the Company's 2002 Annual Statement.

The Company could not provide the 2002 detail of each mortgagor's escrow account, which was not in accordance with ALA. CODE § 27-27-29 (1975). This statute states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind or kinds, of insurance transacted." This contributed to the qualification of this report.

The Company did not complete the mortgage loan general interrogatory in its 2002 Schedule B - Part 1, which is not in compliance with the NAIC Annual Statement Instructions.

The Company did not disclose information concerning its mortgage loans in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 37, paragraph 20. SSAP No. 37, paragraph 20 states that "The following disclosures shall be made in the financial statements:

a. Fair values in accordance with SSAP No. 27 - Disclosure of Information about financial instruments with off-balance-sheet risk, financial instruments with concentrations of credit risk and disclosures about fair value of financial instruments (SSAP No. 27);
b. Concentrations of credit risk in accordance with SSAP No. 27;
c. Description of the valuation basis of the mortgage loans;
d. Information on the minimum and maximum rates of interest received for new loans made by category;
e. Maximum percentage of any one loans to the value of security at the time of the loan;

f. Total carrying amount of mortgages with interest 180 days past due and the amount of interest past due thereon. The carrying amount and number of mortgage loans where interest has been reduced, by percent reduced; and,

g. Taxes, assessments, and amounts advanced not included in the mortgage loan total.

The Company had prepaid interest on one of its mortgage loans at December 31, 2002. Per SSAP No. 37, paragraph 10, prepaid interest shall be recorded as a liability. It was determined that the Company did not set up a liability for the unearned interest amount of $44, which is not material; however, the Company was not in compliance with the NAIC Accounting Practices and Procedures Manual- SSAP No. 37, paragraph 10.

Note 3- Real estate: Real Estate - Properties held for the production of income	**$0**
Real Estate - Properties held for sale	**$246,882**

The captioned amounts are $150,102 less than and $130,157 more than the $150,102 and the $96,780, respectively, reported in the Company's 2002 Annual Statement.

The Company was not in compliance with ALA. CODE 27-41-34(c) (1975), which states:

> "An insurer may acquire, own, maintain, alter, furnish and improve real estate acquired in satisfaction of loans, mortgages, liens or other evidence of indebtedness previously owing to the insurer in the regular course of its business. Except as stated in subsection (e) of this section, an insurer may not carry as an admitted asset real estate acquired under this subsection following 10 years from that date of acquisition."

The Company admitted its property at 2018 Evans Street, which was acquired in 1964.

The Company did not properly classify six of its properties listed in its 2002 Schedule A - Part 1. The following properties should have been classified as properties held for sale and not classified as properties held for the production of income, which was not in compliance with the NAIC Annual Statement Instructions:

-2018 Evans Street
-255 Alston
-1583 May

-4275 Briarberry
-2155 Ethelyn
-495-497 Waldorf

The Company did not reflect the dates of the last appraisals for its real estate owned in its Schedule A - Part 1 of its 2002 Annual Statement in accordance with the NAIC Annual Statement Instructions.

According to the NAIC Accounting Practices and Procedures Manual - SSAP No. 40, paragraph 11, "Estimates of fair value shall be determined by an appraisal..." Of the properties listed on the Company's 2002 Schedule A- Part 1, the Company could not provide appraisals for the following:

379 South Orleans
553-571 Walnut Street
569 Williams
322 Vance
1885-87 Castalia

During the course of the exam, the Company provided an appraisal for the 553-571 Walnut Street property that was done in 2004. The Company nonadmitted these properties in its 2002 Annual Statement. In addition, the Company not maintaining current and independent appraisals for all real estate was noted in the prior examination.

The examiners also noted that the Company's 2018 Evans Street appraisal was over five years old, which was not in accordance with the NAIC Accounting Practices and Procedures Manual- SSAP No. 40, paragraph 12. According to SSAP No. 40, paragraph 12, "All appraisals obtained to determine fair value of real estate investments shall be no more than five years old." During the course of the examination, the Company provided an appraisal for this property. The appraised value was higher than the carrying value of the property.

Per the NAIC Accounting Practices and Procedures Manual, SSAP No. 40, paragraph 9, "Fair value is determined in accordance with paragraph 11 of this statement. If the fair value of the asset is less than the carrying value, the asset shall be written down to the fair value..." Per SSAP No. 40, paragraph 11, "If market quotes are unavailable, estimates of fair value shall be determined by an appraisal..." In addition, ALA. CODE Section 27-37-7(b) (1975) states that "Other real estate shall not be valued at an amount greater than the fair value as determined by a recent appraisal..."

The Company was not in compliance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 40, paragraph 9 or ALA. CODE 27-37-7(b) because the Company had two properties that had carrying values greater than the appraised values. However, the Company nonadmitted one of the two properties in its 2002 Annual Statement, which left an immaterial difference of $872 between the carrying value and the appraised value. This amount was deemed immaterial.

The Company did not complete Schedule A - Part 1 concerning its real estate in accordance with the NAIC Annual Statement Instructions. The following columns were incomplete:

Column 5 - Date of Last Appraisal
Column 15 - Taxes, Repairs and Expenses Incurred

Also, the Company did not complete its 2000 Schedule A - Part 3 correctly. The Company reported the four properties stated below in its 2000 Schedule A - Part 3 (Real Estate Sold). The properties were written down to market value and not sold.

Property description
-Durango Subdivision
-191-193 Elm Avenue
-553-69-71 Walnut Street
-2423 Manchester

The Company was not in compliance with the NAIC Annual Statement Instructions because the Company is to report property sold or transferred during the year in Schedule A - Part 3 not write-downs to market value.

The Company did not comply with the NAIC Accounting Practices and Procedures Manual SSAP No. 40, paragraph 19 and Note 5 of the NAIC Annual Statement Instructions. It did not disclose the following regarding its real estate impairment losses in its financial statements:

A. A description of its impaired assets and the facts and circumstances leading to the impairment;
B. The amount of the impairment loss and how fair value was determined; and
C. The caption in the statement of operations in which the impairment loss is aggregated.

The examiner selected a sample of real estate by selecting all real estate with a carrying value of $10,000 and greater. The sample represented eighty percent of the total real estate owned. The examiner then requested evidence of insurance coverage for the sampled real estate. Of the insurance policies received and reviewed, it was noted that the Company could not provide evidence of coverage at December 31, 2002 on two of its properties: 1583 May Street and 495-497 Waldorf Street. The Company did provided evidence of current coverage on these properties.

Because of the two discrepancies noted above, the examiner selected all other properties listed in the Company's 2002 Schedule A - Part 1. The Company provided evidence of insurance coverage for all these properties.

The Company did not provide the cash receipts journals for the properties sold during the examination period. Therefore, the Company is not in compliance with the ALA. CODE § 27-27-29(a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such records and methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

The Company has no investment minutes or reports documenting where the board of directors approved its real estate transactions, which is not in compliance with ALA. CODE § 27-41-5 (1975), which states:

"An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The actions of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors."

<u>Note 4 - Policy Loans</u> <u>$253,565</u>

The captioned amount is the same as reported in the Company's 2002 Annual Statement.

During the last exam, the Tennessee Department of Insurance determined that the policy loans should be nonadmitted until the loan inventory could be properly maintained. Per Harold Washington, Controller, the Company has continued to nonadmit this asset because it did not properly maintain the loan inventory. Only policy loans issued since the acquisition by Protective Industrial Insurance Company are being carried as an admitted asset.

Note 5 - Cash **$113,121**
Short-term investments **$154,647**

The captioned amount for cash is $33,150 less than the $146,271 reported on the Company's 2002 Annual Statement. The captioned amount for short-term investments is the same as reported by the Company in its 2002 Annual Statement.

After receiving confirmations for the bank accounts listed on the Company's 2002 Schedule E - Part 1, it was determined that this amount was incorrect. It was further noted that the Company had reported three certificates of deposit and two cash accounts totaling $46,697, which were maintained outside of the state of Alabama. ALA. CODE § 27-27-29(b) (1975) states "Every domestic insurer shall have, and maintain, its assets in this state..." Therefore, this total was not admitted. The Company's SouthTrust Bank account and the Cash in the Company's office were the only accounts reported that were maintained within the state. The Company reported $71,563 for the SouthTrust Bank account. However, according to the bank confirmation and the Company's reconciliation, this amount should have been $85,110, which was $13,547 more than reported in Schedule E- Part 1.

The Company did not reconcile its bank accounts at December 31, 2002. Upon request during the examination, the Company created bank reconciliations. The Company should reconcile its bank accounts to ensure accuracy.

At December 31, 2002, the Company had issued checks prior to year end that were still outstanding, however, it did not include such checks on the year end bank reconciliation. These checks must be included in the bank reconciliation to provide for an accurate cash amount at year-end.

The Company was unable to provide supporting documentation on twenty-five disbursements and canceled checks on seven disbursements. Per Alabama Department of Insurance Regulation No. 118, "All records must be maintained for not less than five (5) years." Check vouchers were not provided on twenty-two disbursements with amounts over $25.00. ALA. CODE § 27-27-30 (1975) states that "No insurer shall make any disbursement of $25.00 or more unless evidenced by a voucher or other document correctly describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of, the person receiving the money."

Per the examination:

Total per Schedule E - Part 1(includes cash in Company's home office of $28,011)	$146,271
Increase for SouthTrust Bank	13,547
Decrease -out of state accounts- (not admitted)	46,697
Total for Schedule E-Part 1 per exam	***$ 113,121***

At December 31, 2002, the Company did not report interest received or accrued during the year on Schedule E - Part 1 - Cash. Interest received and accrued during the year for cash is requirement to be disclosed on this schedule in accordance with the NAIC Annual Statement Instructions.

The Company had a repurchase agreement with SouthTrust Bank. At December 31, 2002, the collateral's fair value was equal to 100% of the purchase price of the investment. According to the NAIC Accounting Practices and Procedures Manual-SSAP No. 45, paragraph 8a, "The reporting entity shall receive as collateral transferred securities having a fair value at least equal to 102 percent of the purchase price paid by the reporting entity for the securities. If at any time the fair value of the collateral is less than 100 percent of the purchase price paid by the reporting entity, the counter party shall be obligated to provide additional collateral, the fair value of which, together with fair value of all collateral then additional collateral, the fair value of which, together with fair value of all collateral then held in connection with the transaction, at least equals 102 percent of the purchase price."

Note 5 of the 2002 Notes to Financial Statements did not disclose this repurchase agreement. According to the NAIC Accounting Practices and Procedures Manual - SSAP No. 45, paragraph 18, certain information needs to be disclosed in the financial statements regarding repurchase agreements. The NAIC Annual Statement Instructions states to report repurchase agreements in Note 5 E of the Notes to Financial Statements.

The Company reported its repurchase agreement net of the Company's cash account on Schedule E - Part 1 at December 31, 2002. However, the NAIC Annual Statement Instructions state to report repurchase agreements with maturity dates less than a year on Schedule DA - Part 1.

The Company stated the incorrect cusip number for one of its short-term investments in its 2002 Schedule DA - Part 1, which is not in compliance with the NAIC Annual Statement Instructions and the NAIC SVO Purposes and Procedures Manual. The par value per the Company's 2002 Schedule DA - Part 1 was $40,873, and the par value per the SouthTrust confirmation was $51,270, which was a difference of $10,397. The confirmation amount was greater than the statement value.

Note 6- Aggregate write-ins for invested assets | $-0-
Aggregate write-ins for other than invested assets | $17,493

The captioned amounts are $17,493 less than and $17,493 more than, respectively, the amounts reported by the Company in its 2002 Annual Statement.

The $17,493 was premium tax overpayments and was classified as Aggregate write-ins for invested assets at December 31, 2002 instead of Aggregate write-ins for other than invested assets in accordance with the NAIC Annual Statement Instructions. The examiners reclassified this amount into the proper line item.

Note 7 - Life insurance premiums and annuity considerations deferred and uncollected on in force business | $83,255

The captioned amount is $36,582 less than the $119,837 reported by the Company in its 2002 Annual Statement.

The actuarial examiner found that the Company's loading, reported $46,674, for the captioned line item at December 31, 2002 was understated by $36,582 and should have been $83,256. The life insurance premiums and annuity considerations deferred and uncollected on in-force business asset was overstated due to this understatement of loading; therefore, the Company was not in compliance with the NAIC Accounting Practices and Procedures Manual SSAP No. 51, paragraph 23.

There was a total difference of $2,999 between the premiums due and deferred detail and the Company's 2002 Annual Statement. Per Company management, the discrepancy in premium and annuity considerations reported for the Company was a result of the Company recreating the due and deferred reports in electronic format. This discrepancy of $2,999 could not be reconciled. Due to the immaterial difference, there were no changes made to the financials within this report.

The Company did not comply with the NAIC Accounting Practices and Procedures Manual - SSAP No. 51, paragraph 39, which requires the Company to report its life insurance premiums and annuity considerations deferred and uncollected on policies in force as of the financial statement date and disclose separately the amounts and the loading excluded for its industrial business and ordinary renewal business. This disclosure should have been made in Note 29 of the Notes to the Financial Statement in accordance with the NAIC Annual Statement Instructions.

Note 8- Aggregate reserve for life contracts $2,395,591

The captioned amount is $195,000 more than the $2,200,591 reported by the Company in its 2002 Annual Statement.

When trying to reconcile the Company's 2002 Exhibit of Life Insurance with supporting detail, the Company's detail had more policies and less insurance amounts than what was reflected in the Exhibit of Life Insurance. According to the Company's actuary, the Company detected an error in its 2002 Exhibit of Life Insurance; therefore, the following information was reported incorrectly and not in accordance with the NAIC Annual Statement Instructions:

	Per the 2002 Exhibit of Life Insurance		Correct Totals	
	Number	Amount	Number	Amount
Industrial Policies	15,724	$12,203,000	21,908	$15,361,778
Ordinary Policies	6,758	22,131,000	4,762	16,402,176
Group Policies	-0-	-0-	1,209	6,045,000
Total	22,482	$34,334,000	27,879	$37,808,954

This error did not affect the Company's 2002 Balance Sheet; therefore, no changes were made.

A sample of forty-seven policies with 2002 premium collections was selected. The examiner joined the sample file with the Company's 2002 In force Valuation records, via ACL, to produce all unmatched records. Twelve were not found on the in force valuation records at December 31, 2002. There were two Accident and Health policies, one lapsed policy, one extended term policy and eight burial policies, which the Company identified as F90 policies. The extended term policy and the burial policies should have had reserves set-up.

A sample of forty-seven 2002 policy premiums to verify individual determinants was selected; however, the Company could not provide twenty-two of the forty-seven policy applications. The Company was not in compliance with ALA. CODE § 27-27-29(a) (1975), which states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods of systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Due to the Company not being able to locate these files, the examiner traced these policies to the Company's December 31, 2002 in force valuation record to ensure that the Company was accounting for these policies. The examiner determined that eighteen of the twenty-two policies were not included on the valuation record. Six of these policies were burial policies and should have been included on the December 31, 2002 in force valuation listing. The Company not being able to find the application files and the six policies not being on the in force valuation record at December 31, 2002 contributed to the qualification of this report.

The examiners obtained a listing of all F90 burial policies at December 31, 2002. The actuarial examiner reviewed the F90 policies and estimated that $195,000 should have been set up for the reserves on these policies as required by ALA CODE §27-36-7 (1975) (Standard Valuation Law).

The examiner selected a sample of forty-seven application files to test the accuracy of the in force valuation record at December 31, 2002. Of these forty-seven, it was determined that one policy was not but should have been included on the Company's in force valuation record at December 31, 2002, which also contributed to the qualification of this examination report.

Note 9- Contract claims- Life **$98,157**

The captioned amount is $68,157 more than the $30,000 reported by the Company in its 2002 Annual Statement.

During a review of 2003 paid claims, it was determined that the Company paid $38,157 for claims received prior to 2003 and paid in 2003. The Company reported $0 at December 31, 2002. $38,157 should have been either reported as Claims Due and Unpaid or In Course of Settlement at December 31, 2002.

In order to determine if the Company's incurred but not reported (IBNR) reserve was accurate, the examiner reviewed the Company's 2003 paid claims through September 2003. It was determined that the Company paid $52,219 for claims reported in 2003 with a death date prior to 2003. The Company reported $30,000 for its December 31, 2002 IBNR for life, which was $22,219 understated. After the actuarial examiner's review, it was determined that an additional $7,781 should be set up for the remainder of the incurred but not reported claims at December 31, 2002 (that will be paid after September 2003). The total IBNR at December 31, 2002 should have been $60,000. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55.

Note 10- Contract claims- Accident and Health **$333,485**

The captioned amount is $315,985 more than the $17,500 reported by the Company in its 2002 Annual Statement.

According to the Company's January 2003 through September 2003 paid claims data set, the Company paid claims totaling $93,485, which had received dates and incurred dates prior to 2003, therefore understating the Company's due and unpaid or in course of settlement claims by this amount.

The Company also paid claims in 2003 totaling $213,639, which were received in 2003 and incurred prior to 2003, therefore understating the Company's IBNR. After the actuarial examiner's review, it was determined that an additional $26,361 should be set up for the remainder of the incurred but not reported claims at December 31, 2002 (that will be paid after September 2003). The total IBNR at December 31, 2002 should have been $240,000.

The Company's contract claims- accident and health line item at December 31, 2002 was understated by $315,985. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55.

Note 11-General expenses due or accrued	**$-0-**
Taxes, licenses and fees	**$-0-**
Amounts withheld or retained by company as agent or trustee	**$55,991**

The captioned amounts are the same as reported by the Company in its 2002 Annual Statement.

After a review of the invoices that were provided for 2003 disbursements, it was determined that the Company paid $11,844 for 2002 taxes, licenses or fees and $14,027 for 2002 general expenses; however, the Company did not provide invoices for an additional eleven disbursements made in 2003. Therefore, the examiners were unable to determine the amounts that the Company should have accrued at December 31, 2002 for General expenses due or accrued, Taxes, licenses and fees due or accrued, and Amounts withheld or retained by company as agent or trustee, which contributed to the qualification of this report. Alabama Department of Insurance Regulation No. 118 states that "All records must be maintained for not less than five (5) years." Also, ALA. CODE § 27-27-30 (1975) states that "No insurer shall make any disbursement of $25.00 or more unless by a voucher or other document correctly describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of , the person receiving the money."

The Company did not allocate the money it paid for its management agreement with Protective Industrial Insurance Company into the individual expense components in Exhibit 5 for 2000 and 2001 in accordance with the NAIC Annual Statement Instructions instead it reported the total paid as a one-line expense; however, it did correctly allocate these expenses for 2002.

The Company could not provide all of the detail for its 2002 Amounts withheld or retained by Company as agent or trustee, which is not in compliance with the ALA. CODE § 27-27-29(a) (1975), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such records and methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted." The Company could only provide the deposit tickets for the amounts with the exception of the mortgage loan escrow listing.

Note 12 - Amounts Held for Agents' Account $8,690

The captioned amount is the same as reported in the Company's 2002 Annual Statement

It was noted that the Company could not provide the detail of the Company's 2002 amounts held for agents' account. Per the Company, this balance was carried over from the acquisition of the Company by Protective Industrial Insurance Company. This amount has remained the same for 2001 and 2002. As reported in the Tennessee Department of Insurance report of examination as of December 31, 1999, the Company was not able to determine a specific amount due to any former agent of the Company.

The Company is not in compliance with the ALA. CODE § 27-27-29(a) (1975), which states: "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such records and methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted.

Note 13- Asset Valuation Reserve $36,337

The captioned amount is the same as the amount reported in the Company's 2002 Annual Statement.

At December 31, 2002, the Company misclassified the bonds sold during the year according to the ratings reflected on the Asset Valuation Reserve, Basic Contribution, Reserve Objective and Maximum Reserve Calculations, Default Component schedule. The correction caused the basic contribution, reserve objective and maximum reserve for Highest Quality and High Quality bonds to increase.

On the 2002 Asset Valuation Reserve schedule - Unrealized Capital Gains/Losses-General Account line, the Company reported incorrect amounts for Other Than Mortgage Loans, Common Stocks, and Real Estate and Other Invested Assets. The Other Than Mortgage Loans unrealized loss should have been $3,858 instead of $0. According to Schedule D-Part 2- Section 2, the common stock unrealized loss should have been $95,866 instead of $18,812. According to Schedule A-Part 1, the unrealized loss reported for Real Estate and Other Invested Assets should have been $68,521 instead of $121,495.

On the 2002 Asset Valuation Reserve schedule - Realized Capital Gains/Losses Net of Taxes- General Account line, the Company reported $0 for Other than Mortgage Loans. However, this amount should have been $2,013 according to Schedule D - Part 4. There was a common stock, Prudential Financial, sold during 2002 with a $1,023,048 realized gain. The examiners requested the broker's advice where the Company had purchased this security on February 23, 2003. The broker's advice was never provided. Through conversations with the Company, it was noted that the Company was unaware of this security when the Company was purchased. This common stock was recorded on the Company's books during 2002 for $1, since the Company did not have the broker's advice or evidence of the book value. Shortly thereafter, the Company sold this security. Due to the brokers advice not being provided on this security, the actual realized gain or loss could not be determined. This contributed to the qualification of this report.

The Company was unable to provide documentation supporting the portfolio beta factor utilized for its common stock. The factor utilized was based solely on the common stocks held with SouthTrust Bank and did not include the common stocks held by Union Planters Bank.

The correct Asset Valuation Reserve could not be determined without this information. Regulation 118 states that "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner." ALA. CODE § 27-2-23(b) states "Every person being examined, its officers, attorneys, employees, agents and representatives shall make freely available to the commissioner or his examiners the accounts, records, documents, files, information, assets and matters in this possession or control relating to the subject of the examination." The Company should complete the Asset Valuation Reserve in accordance with the NAIC Annual Statement Instructions.

Note 14 - Aggregate write-ins for liabilities **$242,218**

The captioned amount is the same as reported by the Company in its 2002 Annual Statement.

It was noted that the Company overstated this liability by $12,018. It was determined that the Company could not provide two of the cancelled checks where it paid a shareholder for Universal's outstanding stock, which is not in compliance with the ALA. CODE § 27-27-29(a) (1975), which states, "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such records and methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

Note 15- Common capital stock	**$1,054,144**
Gross paid in and contributed surplus	**$2,351,434**
Aggregate write-ins for special surplus	**$ 200,000**

The captioned amounts are the same as reported by the Company in its 2002 Annual Statement.

The examiner requested the following information on July 9, 2004:

a. The Company has lost approximately $600,000 each year in surplus in 2001 and 2002. Capital and Surplus at year-end 2002 was only $4.3 million. How is the Company addressing this?
b. Detail for the Aggregate write-ins for special surplus funds at December 31, 2002 that reconciles with the balance sheet and general ledger and why it was classified here;
c. Detail supporting the gross paid-in and contributed surplus amount at December 31, 2002 that reconciles with the general ledger and the annual statement;
d. The stock ledger that reconciles with the general ledger.

The Company did not provide this information during the course of the examination, therefore contributing to the qualification of this examination report. ALA. CODE § 27-27-29(a) (1975) states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods of systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

The Company was also not in compliance with the Alabama Department of Insurance Regulation No. 118, Section 6, which states, "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner. When the requested record or response is not produced or cannot be produced by the insurer within ten working days, the non-production shall be deemed a violation of this rule, unless the Commissioner or duly appointed person making the request grants an extension in writing or the insurer can demonstrate to the satisfaction of the Commissioner that there is a reasonable justification for the delay."

According to ALA. CODE § 27-2-23 (b) (1975), "Every person being examined, its officers, attorneys, employees, agents and representatives, shall make freely available to the commissioner or his examiners the accounts, records, documents, files, information, assets and matters in his possession or control relating to the subject of the examination."

Note 16- Unassigned funds **$763,716**

The captioned amount is $668,819 less than the $1,432,535 reported in the Company's 2002 Annual Statement.

The following presents a reconciliation of unassigned funds per the Company's filed 2002 Annual Statement to the Unassigned funds per the examination of the items that the examiners were able to make a determination of the amounts.

Unassigned funds per Company		$1,432,535
Examination increase/(decrease) to assets:		
Real estate: Properties held for sale	$(19,945)	
Cash	(33,150)	
Life insurance premiums deferred and uncollected	(36,582)	
NET CHANGES IN ASSETS		$ (89,677)
Examination (increase)/decrease to liabilities:		
Aggregate reserve for life contracts	$(195,000)	
Contract claims: Life	(68,157)	
Contract claims: Accident and health	(315,985)	
TOTAL (INCREASE) TO LIABILITIES		$ (579,142)
Examination increase/(decrease) to unassigned funds		$ (668,819)
TOTAL UNASSIGNED FUNDS PER EXAMINATION*		$ 763,716

***This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of Universal Life Insurance Company. Furthermore, due to the Company's inability or unwillingness to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. See "QUALIFICATION OF EXAMINATION REPORT" for detailed discussion on Page 24.**

COMMITMENTS AND CONTINGENT LIABILITIES

Examination of these items included: a review of the Company's records and files for unrecorded items; obtaining a letter of representation from management; and obtaining confirmations from outside attorneys representing the Company.

The confirmation received from Milling, Benson and Woodward, L.L.P., the Company's outside attorney, indicated one pending lawsuit. However, the attorney stated that it appears that the plaintiffs have lost interest in this case. They have done nothing since the continuance of the conference early last year (2003). In addition, they have not responded to any of the lawyers' inquiries. Therefore, the Company will not likely incur any significant attorneys' fees or other costs.

SUBSEQUENT EVENTS

On April 15, 2004, all outstanding shares of Protective Industrial Insurance Company of Alabama, the Company's parent, were purchased by Booker T. Washington Insurance Company. This has resulted in a change of control with the anticipation of ultimately merging the three companies. Until this merger, Protective Industrial Insurance Company of Alabama and Universal Life Insurance Company will continue to operate as stand alone corporations.

The Company did not have a Board of Directors' or Stockholder's meeting during 2003. However, the Company reported on the 2003 Annual Statement, investments that were sold and investments that were acquired during the year. ALA. CODE § 27-41-5 (1975) states that "An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors." The Company's Bylaws stipulate that an annual meeting of the stockholders of the Company be held on the last Saturday of April in the Company's office in the State of Alabama. The stockholder did not hold an annual meeting on the last Saturday of April in 2003. The Bylaws also stipulates an annual meeting of the Board shall be held immediately after the adjournment of the annual meeting of Shareholders. The Company's Board did not meet in accordance with this article and section in 2003.

COMPLIANCE WITH PREVIOUS RECOMMENDATIONS

A review was conducted during the current examination with regard to the Company's compliance with recommendations made in the previous examination report. This review indicated that the Company had not satisfactorily complied with the prior recommendations as listed below:

Real estate- The Company was not in compliance with the following prior examination recommendation: It is recommended that the Company maintain current and independent appraisals for all real estate. See "Note 3- Real estate... " on page 30.

Policyholder Service- The Company did not comply with the prior examination report. It was recommended for the Company's accident and sickness disability policies that the contractual provision be enforced under these products and disability/sickness benefits be terminated when the policyholder reaches the stated termination age. See "Policyholder Service" on page 14.

COMMENTS AND RECOMMENDATIONS

Conflict of Interest – Page 5

It is recommended that the Company have its officers, directors and responsible employees complete conflict of interest statements.

It is also recommended that the Company correctly complete its general interrogatories in accordance with the NAIC Annual Statement Instructions for future financial filings.

Corporate Records – Page 6

It is recommended that the Company hold a stockholders meeting on or before the first Wednesday in April of each year, amend its Bylaws to state the new home office's address and hold a Board of Directors Meeting every six months beginning immediately after the annual stockholders meeting in accordance with its Bylaws.

It is recommended that the Company comply with the NAIC Annual Statement Instructions in completing its General Interrogatories regarding the reporting of changes made during the year to the charter, by-laws, or articles of incorporation.

Transactions and Agreements with Affiliates - Page 7

It is recommended that the Company pay its management fees in accordance with the provisions in the Management Agreement with its parent.

Fidelity Bonds - **Page 8**

It is recommended that the Company obtain the suggested minimum amount of fidelity coverage as recommend by the NAIC Financial Examiner's Handbook.

It is recommended that the Company obtain insurance that covers it from hazards to which it is exposed.

Territory - **Page 10**

It is recommended that the Company complete its Schedule T in future financial filings in accordance with NAIC Annual Statement Instructions.

It is recommended that the Company provide an explanation for basis of allocation by all states in accordance with NAIC Annual Statement Instructions.

Claims payment practices and Claims handling practices - **Page 12**

It is recommended that the Company comply with ALA. CODE § 27-1-17(a) (1975) which states "Each insurer...that issues or renews any policy of accident or health insurance providing benefits for medical or hospital expenses for its insured persons shall pay for services rendered by Alabama health care providers within 45 calendar days upon receipt of a clean written claim... " also "... the insurer...shall within 45 calendar days for a written claim...notify the health care provider or certificate holder of the reason for denying or pending the claim and what, if any, additional information is required to process the claim."

It is recommended that the Company maintain all of its claims files in accordance with ALA. CODE § 27-27-29 (a) (1975), which states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is recommended that the Company comply with Alabama Department of Insurance Regulation No. 118 Section 3, which states "All records must be maintained for not less than five (5) years."

Policyholder Complaints - **Page 13**

It is recommended that the Company maintain a complaint register for every year in accordance with the guidelines established in Chapter XV, Section B (Complaint Handling) of the NAIC Market Conduct Examiners Handbook and ALA. CODE § 27-27-29 (a) (1975).

Policyholder Service - **Page 14**

It is recommended that the Company maintain in its underwriting file copies of reinstatement notices sent to policyholders in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is recommended that the Company complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions and maintain supporting detail for the transactions in its Exhibit of Life Insurance in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is recommended that the Company maintain in its records documentation of attempts to locate beneficiaries of unclaimed property or funds in accordance with ALA. CODE § 27-27-29 (a) (1975) and ALA. CODE § 35-12-31 (e) (1975)

It is again recommended that the contractual provision be enforced under these products and disability/sickness benefits be terminated when the policyholder reaches the stated termination age.

Reinsurance - **Page 15**

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual SSAP No. 61, paragraphs 57, 60 and 62 and the NAIC Annual Statement Instructions by disclosing the required reinsurance information in its Notes to the Financial Statement in future financial statements.

Accounts and Records - **Page 15**

It is recommended that the Company require that its CPAs maintain its work papers to support the audit opinion to be filed with the Department on June 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company restrict access to its computer room in order to secure its computer system.

It is recommended that the Company establish a control to prevent the corruption of its databases and procedures that provide for prompt cancellation of identification codes and passwords when the employment of the individual to whom they were assigned has been terminated.

It is recommended that the Company determine if and ensure that all of its business transactions transacted over the internet are secure.

It is recommended that the Company obtain an intrusion detection policy in order to protect its computer system from unauthorized access.

It is recommended that the Company test its disaster recovery plan to ensure its effectiveness in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is recommended that the Company establish written computer security procedures in accordance with ALA. CODE § 27-27-29 (a) (1975).

It is recommended that the Company maintain reconciliations of its general ledger accounts that reconciles to its Annual Statements.

It is recommended that the Company reconcile its general ledger with the summary of operations schedule in its financial statements.

It is recommended that the Company complete its Five-Year Historical Data Schedule in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company include in Schedule T an explanation of its basis of allocation in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company provide all requested information within 10 working days in accordance with the Alabama Department of Insurance Regulation No. 118, Section 6.

It is recommended that the Company make freely available to the examiner all requested information in accordance with ALA. CODE § 27-2-23 (b) (1975).

Bonds and Common stocks - Page 27

It is recommended that the Company report the correct par values and book values for its bonds in accordance with NAIC Annual Statement Instructions.

It is recommended that the Company complete its Schedule D-Part 1 correctly and state the option date in column 7 and option call price in column 8 for its callable bonds in future financial statements in accordance with the NAIC Accounting Practices and Procedures Manual.

It is recommended that the Company complete its Schedule E - Part 2 - Special Deposits, in its future financial statements, in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company report the correct designations for its bonds in accordance with the NAIC Securities Valuation Office Purposes and Procedures Manual and the NAIC Annual Statement Instructions.

It is recommended that the Company report the correct cusip numbers for its short-term investments in its future Schedule DA- Part 1 in accordance with the NAIC Annual Statement Instructions and the NAIC SVO Purposes and Procedures Manual.

It is recommended that the Company have its investment transactions approved by the board of directors in accordance with ALA. CODE § 27-41-5 (1975).

It is recommended that the Company comply with ALA. CODE § 27-27-29(a) (1975) and maintain all brokers' advices for its security transactions.

It is recommended that the Company record its security transactions on the trade date instead of the settlement date in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 26, paragraph 4 for bonds and SSAP No. 30, paragraph 5 for common stocks.

It is recommended that the Company determine prepayment assumptions for its loan-backed securities and review the results periodically in accordance with NAIC Accounting Practices and Procedures Manual SSAP No. 43, paragraph 9-14.

Mortgage loans and Investment income due and accrued – Page 29

It is recommended that the Company maintain the detail for the escrow accounts related to its mortgage loans in accordance with ALA. CODE § 27-27-29 (1975).

It is recommended that the Company complete its general interrogatory for its mortgage loans in future financial statements in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company disclose information concerning its mortgage loans in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 37, paragraph 20.

It is recommended that the Company non-admit due and accrued interest over 180 days past due in accordance with ALA. CODE § 27-37-1 e. (1975) and the NAIC Accounting Practices and Procedures Manual SSAP No. 37, paragraph 14.

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual- SSAP No. 37, paragraph 10 and set up a liability for its unearned interest.

Real estate – Page 30

It is recommended that the Company not admit property that is not used in the regular course of its business and that has been acquired over ten years ago in accordance with ALA. CODE § 27-41-34(c) (1975).

It is recommended that the Company properly classify its real estate under the correct category in its Schedule A - Part 1 in accordance with the NAIC Annual Statement Instructions.

It is again recommended that the Company obtain and maintain current and independent appraisals for all of its properties in accordance with the NAIC Accounting Practices and Procedures Manual - SSAP No. 40, paragraph 11.

It is recommended that the Company write down its real estate if the carrying value is higher than the fair value in accordance with the NAIC Accounting Practices and Procedures Manual, SSAP No. 40, paragraphs 9 and 11.

It is recommended that the Company not value its property at an amount greater than the fair value as determined by a recent appraisal in accordance with ALA. CODE § 27-37-7(b) (1975).

It is recommended that the Company determine fair value of its real estate investments with appraisals that are not over five years old in accordance with the NAIC Accounting Practices and Procedures Manual -SSAP No. 40, paragraph 12.

It is recommended that the Company report the dates of the last appraisals for its real estate owned in Schedule A - Part 1 in accordance with the NAIC Annual Statement Instructions in future financial statements.

It is recommended that the Company complete all columns in its Schedule A - Part 1 in accordance with the NAIC Annual Statement Instructions in future financial filings.

It is recommended that the Company complete its Schedule A - Part 3 in future financial statements in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company disclose information concerning its real estate impairment losses in the Notes to the Financial Statements in accordance with the NAIC Accounting Practices and Procedures Manual SSAP No. 40, paragraph 19 and Note 5 of the NAIC Annual Statement Instructions.

It is recommended that the Company maintain insurance coverage on its properties to protect the Company from hazards to which it could be exposed.

It is recommended that the Company maintain the cash receipts journal of its real estate sold in accordance with the ALA. CODE § 27-27-29(a) (1975.

It is recommended that the Company have its real estate transactions approved by the board of directors in accordance with ALA. CODE § 27-41-5 (1975).

Policy loans – **Page 33**

It is recommended that the Company maintain detailed records of its policy loans.

Cash and short-term investments – **Page 34**

It is recommended that the Company report the correct amounts for its cash accounts on Schedule E - Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company maintain its cash accounts in the State of Alabama in accordance with ALA. CODE § 27-27-29(a) (1975), which states "Every domestic insurer shall have, and maintain, its principal place of business and home office in this state and shall keep therein complete records of its assets, transactions and affairs in accordance with such methods and systems as are customary or suitable as to the kind, or kinds, of insurance transacted."

It is recommended that the Company reconcile its bank accounts to maintain an accurate account of its cash balance.

It is recommended that the Company include all checks issued prior to year-end and outstanding in the cash reconciliation.

It is recommended that the Company comply with Alabama Department of Insurance Regulation No. 118 Section 3, which states "All records must be maintained for not less than five (5) years."

It is recommended that the Company comply with ALA. CODE § 27-27-30 (1975), which states that "No insurer shall make any disbursement of $25.00 or more unless by a voucher or other document correctly describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of, the person receiving the money."

It is recommended that the Company include interest received and accrued during the year on Schedule E - Part 1 in accordance with the NAIC Annual Statement Instructions.

It is recommended that the Company have collateral with a fair value equal to at least 102% of the purchase amount of the investment in accordance with the NAIC Accounting Practices and Procedures Manual -SSAP No. 45, paragraph 8a.

It is recommended that the Company report repurchase agreements in accordance with SSAP 45, paragraph 18 and the NAIC Annual Statement Instructions.

It is recommended that the Company report its repurchase agreement on Schedule DA - Part 1 in accordance with the NAIC Annual Statement Instructions.

Aggregate write-ins for invested assets and Aggregate write-ins for other than invested assets - Page 36

It is recommended that the Company classify its premium tax overpayments as Aggregate write-ins for other than invested assets in accordance with the NAIC Annual Statement Instructions.

Life insurance premiums and annuity considerations deferred and uncollected on in force business – Page 36

It is recommended that the Company comply with the NAIC Accounting Practices and Procedures Manual -SSAP No. 51, paragraph 23 and properly calculate its loading for its life insurance premiums and annuity considerations deferred and uncollected asset.

It is recommended that the Company maintain the detail for its Life insurance premiums and annuity considerations deferred and uncollected on in force business asset.

It is recommended that the Company disclose separately the amounts and the loading excluded for its industrial and ordinary renewal business in Note 29 of the Notes to the Financial Statement in accordance with the NAIC Annual Statement Instructions in its future financial filings.

Aggregate reserve for life contracts - **Page 37**

It is recommended that the Company complete its Exhibit of Life Insurance in accordance with the NAIC Annual Statement Instructions for future financial filings.

It is recommended that the Company maintain its policy applications in accordance with ALA. CODE § 27-27-29(a) (1975).

It is recommended that the Company ensure that all premium paying, paid-up, and extended term policies are accounted for and reserves are set up for these policies on its in force valuation record in accordance with ALA CODE §27-36-7 (1975).

Contract Claims- Life - **Page 38**

It is recommended that the Company establish adequate amounts for its contract claims-life in its future financial statements. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55.

Contract claims- Accident and health - Page 39

It is recommended that the Company establish adequate amounts for its contract claims-Accident and Health in its future financial statements. Guidelines for establishing these liabilities are found in the NAIC Accounting Practices and Procedures Manual - SSAP No. 55.

General expenses due or accrued, Taxes, licenses and fees and Amounts withheld or retained by company as agent or trustee- Page 39

It is recommended that the Company establish adequate accruals in future financial statements.

It is recommended that the Company comply with Alabama Department of Insurance Regulation No. 118 states that "All records must be maintained for not less than five (5) years."

It is recommended that the Company comply with ALA. CODE § 27-27-30 (1975) which states that "No insurer shall make any disbursement of $25.00 or more unless by a voucher or other document correctly describing the consideration for the payment and support by a check or receipt endorsed or signed by, or on behalf of, the person receiving the money."

It is recommended that the Company maintain detailed records of its 2002 Amounts withheld or retained by Company as agent in accordance with the ALA. CODE § 27-27-29(a) (1975.

<u>Amounts Held for Agents' Account</u> – Page 40

It is recommended that the Company maintain detailed records of its amounts held for agents' account in accordance with the ALA. CODE § 27-27-29(a) (1975).

<u>Asset Valuation Reserve</u> – Page 40

It is recommended that that Company comply with the NAIC <u>Annual Statement Instructions</u> when completing the Asset Valuation Reserve for future financial statements.

It is recommended that the Company comply with Alabama Department of Insurance Regulation No. 118 which states "The insurer shall provide, within ten (10) working days, any record or response requested in writing by any duly appointed deputy, assistant, employee or examiner of the commissioner." and ALA. CODE § 27-2-23(b) which states "Every person being examined, its officers, attorneys, employees, agents and representatives shall make freely available to the commissioner or his examiners the accounts, records, documents, files, information, assets and matters in his possession or control relating to the subject of the examination."

<u>Aggregate write-ins for liabilities</u> – Page 42

It is recommended that the Company maintain detailed records of its aggregate write-in for liabilities in accordance with the ALA. CODE § 27-27-29(a) (1975).

__Common capital stock, Gross paid in and contributed surplus and Aggregate write-ins for special surplus__ - **Page 42**

It is recommended that the Company maintain detail supporting these accounts in accordance with ALA. CODE § 27-27-29(a) (1975). **Also, it is further recommended** that the Company provide requested information to the examiners within ten working days in accordance with Alabama Department of Insurance Regulation No. 118, Section 6 and ALA. CODE § 27-2-23 (b) (1975).

__Subsequent Events__ - **Page 45**

It is recommended that the Company comply with ALA. CODE § 27-41-5 (1975), which states "An insurer shall not make any investment or loan, other than loans on policies or annuity contracts, unless the same be authorized, approved or ratified by the board of directors of the insurer or by such committee or person as the board of directors shall expressly authorize. The action of the board of directors, the committee or other persons so authorized shall be recorded and regular reports thereof shall be submitted to the board of directors."

It is recommended that the Company hold a stockholders meeting on the last Saturday of April of each year and hold a Board of Directors Meeting immediately after the annual stockholders meeting in accordance with its Bylaws.

CONCLUSION

The customary insurance examination procedures as recommended by the National Association of Insurance Commissioners have been followed to the extent appropriate and possible in connection with the verification and evaluation of assets and determination of liabilities set forth in this report.

This report of examination is qualified and expresses no opinion on the accuracy of the financial statements of Universal Life Insurance Company. Furthermore, due to the Company's inability or unwillingness to provide information requested by the examiners during the course of the examination, the examiners were unable to determine if the Company was solvent, impaired or insolvent. See "QUALIFICATION OF EXAMINATION REPORT" for detailed discussion on Page 24.

In addition to the undersigned, Anne Pruett, Juliette Boston, Jayne Pearce, and Joy Griggs, Examiners; and Don Yates, FSA, MAAA, Consulting Actuary; all representing the Alabama Department of Insurance, participated in this examination of Universal Life Insurance Company.

Respectively submitted,

Rhonda B. Ball

Rhonda B. Ball
Examiner-in-charge
Alabama Department of Insurance

EXAMINER'S AFFIDAVIT AS TO STANDARDS AND PROCEDURES USED IN AN EXAMINATION

STATE OF ALABAMA

COUNTY OF JEFFERSON

James L. Hattaway, III, being duly sworn, states as follows:

1. I have authority to represent the State of Alabama in the examination of Universal Life Insurance Company, Birmingham, Alabama.

2. The Alabama Department of Insurance is accredited under the National Association of Insurance Commissioners Financial Regulation Accreditation Standards.

3. I have reviewed the examination workpapers and examination report, and the December 31, 2002 examination of Universal Life Insurance Company, Birmingham, Alabama was performed in a manner consistent with the standards and procedures required by the State of Alabama Department of Insurance, and the National Association of Insurance Commissioners.

The affidavit says nothing further.

James L. Hattaway, III
James L. Hattaway III, CFE
Insurance Examination Supervisor
State of Alabama, Department of Insurance
Southeastern Zone, NAIC

Subscribed and sworn before me by James L. Hattaway III on this 26th day of August 2004.

(SEAL)

Audrey Griffin My commission expires 11/2/05.
(Notary Public)